Subject: Reg V Risk Based Pricing

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Comments:

Risk-Based Pricing Regulations The latest proposal regarding the implementation of the FACT Act requirement of “risk-based pricing disclosures” will be extremely burdensome and costly for lenders. The fact that this is yet another piece of paper in the consumer loan process is bad enough, however, the real problem is the expenditure of a lender’s resources to determine if a disclosure should be given at all. Think of the volume of data that will have to be gathered, maintained, and continually updated in order to make “direct, consumer-to-consumer comparisons” of “material terms” on a case-by-case basis. The phrase “terms that are materially less favorable than the most favorable terms available to a substantial proportion of a lender's consumer borrowers” seems terribly subjective and will surely have regulators asking us to define “materially less favorable” and “substantial proportion”. The two alternative methods (credit score proxy and tiered pricing) of determining who should get a risk-based pricing disclosure are not any less burdensome. In fact, I don’t think I understand the credit score proxy method at all. Although not perfect, I think everyone (creditors, regulators, and consumers) agrees that an independently derived credit scoring mechanism used by a third party consumer reporting agency is as fair and objective as it gets. A credit score is probably the best indicator of a consumer's ability and willingness to properly manage debt and thus, in my opinion, the major component in determining risk. With the proposed FACT Act requirements, it seems to me that lenders are being penalized for trying to price their loan products according to risk. It would probably be much easier for lenders to tell prospective borrowers, "Everyone gets the same interest rate at our bank. Oh, by the way, if you don't have a minimum credit score of 750, you won't qualify." At least by pricing according to risk, many marginal borrowers will get the loans that they need and have the opportunity to improve their credit scores. Fortunately, the proposed rules include certain "exceptions" to the risk-based pricing disclosures. By disclosing borrowers' credit scores, the key factors affecting those scores and the fact that the scores are used to determine "material terms" is, I think, all borrowers care about. Lenders are already doing this on residential loans. Most borrowers understand the importance of good credit scores. One can't turn on the TV or go on the internet without being hit by a deluge of warnings, solicitations, and jingles regarding the importance of good credit. Hopefully, the FTC and the regulators will see the burdensome and confusing affects of the proposed general rule and the equally cumbersome alternatives and allow the exceptions to remain in the proposed rules. Who knows, maybe they will decide that the "exception" should be the "rule". I certainly urge them to do so.